

## Message Text

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ACTION SS-25

INFO OCT-01 ISO-00 /026 W

----- 012396

R 041430Z SEP 73

FM AMEMBASSY JIDDA

TO SECSTATE WASHDC 4834

S E C R E T JIDDA 3804

EXDIS

E.O. 11652: GDS

TAGS: ENRG, SA

SUBJECT: SAUDI GOVERNMENT OIL POLICY AND RELATED  
FINANCIAL ASPECTS

REF: A. JIDDA 3444; B. JIDDA 3710; C. JIDDA 3461

SUMMARY: AMBASSADOR INFORMED PETROLEUM MINISTER YAMANI THAT HE HAD GIVEN PRINCE FAHD COPY OF C-20 PAPER ON INVESTMENTS OF ARAB GOVTS AND INFORMED FAHD OF US HOPE SAUDI POLICIES WITH REGARD PRODUCTION LEVELS COULD BE EVOLVED IN MUTUALLY SATISFACTORY MANNER. YAMANI SAID PRODUCTION LEVEL POLITICIES WOULD PROBABLY NOT BE DISCUSSED AGAIN UNTIL SUPREME PETROLEUM COUNCIL (SPC) MEETING OCTOBER OR NOVEMBER. SAID HE HAD JUST RETURNED FROM CONFERRING WITH COUNTERPARTS IN IRAN WHERE AGREEMENT HAD BEEN REACHED ON TACTICS FOR SEPT 15 OPEC MEETING WHICH WOULD REVIEW NEED FOR CHANGES IN TEHRAN AGREEMENT. YAMANI APPARENTLY CONCLUDES THERE NO SIGNIFICANT DIFFERENCES IN FINANCIAL BENEFITS OF IRANIAN AND SAUDI AGREEMENTS WITH COMPANIES. HOWEVER, KUWAIT UNHAPPY WITH ITS DRAFT PARTICIPATION AGREEMENT AND WANTS CHANGES IN TERMS OF COMPENSATION, BUY-BACK PRICES AND OWNERSHIP PERCENTAGE TO BE AWARDED GOK. HE SUGGESTED ARAMCO PARENTS SHOULD SOMEHOW COMMENCE SOME ALTERATIONS IN "WRAPPING" OF SAUDI-ARAMCO PARTICIPATION AGREEMENT. OTHERWISE KUWAITI DISSATISFACTION COULD LEAD TO NEW ROUND OF "OVER-BIDDING." WHATEVER HAPPENS, SAUDIS WANT  
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CONTINUATION ARAMCO'S HIGHLY EFFICIENT SERVICES. HE DID NOT THINK OIL WOULD BE ONE OF PRINCIPAL ITEMS DISCUSSED AT ALGIERS MEETING. CONCERN WITH OTHER MATTERS (BUY-BACK PRICES, POSSIBLE CHANGES IN PARTICIPATION

AGREEMENT) MAY FOR TIME BEING AT LEAST DISTRACT SAUDIS FROM HITHERTO INTENSE PREOCCUPATION WITH RELATIONSHIP RISING FINANCIAL RESERVES TO LEVELS OF PRODUCTION. END SUMMARY.

1. DURING CALL SEPT 2 ON MINISTER OF PETROLEUM YAMANI, I GAVE HIM GIST OF MY PRESENTATION MADE EARLIER TO PRINCE FAHD TO EFFECT USG BELIEVED OIL PRODUCERS MUST BE FREE TO INVEST THEIR RAPIDLY ACCUMULATING FINANCIAL RESERVES AS THEY SAW FIT, A VIEWPOINT REFLECTED IN PAPER WE HAD PREPARED FOR COMMITTEE OF TWENTY, COPIES OF WHICH GIVEN TO BOTH FAHD AND YAMANI. FAHD HAD ALSO BEEN REMINDED OF RAPIDLY MOUNTING LEVEL OF WORLD'S PETROLEUM REQUIREMENTS AND STRONG US HOPE THAT SAUDI POLICIES WITH REGARD PRODUCTION LEVELS COULD BE EVOLVED IN MANNER SATISFACTORY TO SAUDI REQUIREMENTS AND THOSE OF CONSUMERS AS WELL. I TOLD YAMANI THAT FAHD HAD APPEARED INTERESTED IN THIS PRESENTATION AND HAD BEEN STRONGLY REASSURING AS TO NEED FOR CLOSE US-SAUDI FRIENDSHIP AND COOPERATION. STRESSED TO YAMANI THAT USG WISHED BE HELPFUL WITH REGARD PROPER INVESTMENT AND MANAGEMENT OF SAUDI ARABIA'S RAPIDLY ACCUMULATING OIL EARNINGS. INDUSTRIAL INVESTMENTS INSIDE SAUDI ARABIA COULD PLAY IMPORTANT PART BUT NECESSARILY THAT WOULD BE SLOW PROCESS AND CONSIDERATION WOULD HAVE TO BE GIVEN TO SOUND MEANS OF FINANCIAL MANAGEMENT WHICH COULD HELP BLUNT EFFECTS OF INFLATION ON GROWING RESERVES.

2. YAMANI SAID SAG PRODUCTION LEVEL POLICIES HAD NOT BEEN DISCUSSED DURING LAST TWO MEETINGS OF SPC AND HE AFFIRMED THAT ISSUE COULD PROBABLY REMAIN DORMANT UNTIL MEETINGS OF COUNCIL IN OCTOBER OR NOVEMBER. REGARDING SAG'S INVESTMENT POLICY, YAMANI STATED THAT PLACEMENT OF RESERVES LIKELY TO BE MANAGED BY NEW ORGANIZATION YET TO BE SET UP. DOWNSTREAM PETROLEUM INVESTMENTS STILL REMAINED AN IMPORTANT PROSPECTIVE OUTLET, A DEVELOPMENT "WHICH WOULD BE GOOD FOR BOTH OF US."

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3. DESPITE RUMORS TO CONTRARY, YAMANI AFFIRMED THAT OAPEC MEETING IN KUWAIT SEPT 4 WOULD DISCUSS ONLY BAHRAIN DRYDOCK. OPEC MEETING IN VIENNA SEPT 15 WOULD REVIEW NEED FOR CHANGES TO TEHRAN AGREEMENT. HE HAD JUST RETURNED FROM CONFERRING WITH HIS COUNTERPARTS IN IRAN WHERE AGREEMENT HAD BEEN REACHED ON TACTICS TO BE FOLLOWED AT VIENNA MEETING. THEY HAD CONCURRED ON NEED FOR REVISIONS WHICH WOULD ASSURE POSTED PRICES KEPT PACE WITH NOW HIGHER LEVELS (IN SOME LOCALITIES) OF REALIZED PRICES. PRINCIPAL CONCERN IT SEEMS IS WITH NEED FOR ADJUSTMENT UPWARD OF PRICES FOR BUY-BACK OIL. (IN EXPLAINING THIS YAMANI DID NOT MENTION POSSIBILITY OF INCREASE IN TAX LEVEL TO SEVENTY PERCENT.) (PARA FOUR, REF C, REPORTED

MISTAKEN IMPRESSION CREATED BY YAMANI'S EARLIER REMARK THAT "BUY-BACK OIL HAD...NO RELEVANCE TO IRAN'S ARRANGEMENTS WITH CONSORTIUM." OBVIOUSLY IT HAS GREAT IMPORTANCE IN IRANIAN ARRANGEMENTS, A POINT CLARIFIED BY YAMANI'S REMARKS ON THIS OCCASION.)

4. SPEAKING OF VARIOUS PARTICIPATION-TYPE AGREEMENTS, YAMANI APPEARED TO CONCLUDE THERE NO SIGNIFICANT DIFFERENCES IN FINANCIAL BENEFITS OF IRANIAN AND SAUDI AGREEMENTS (THUS INDICATING THAT CAREFUL EXPLANATION SUPPLIED BY IRANIAN CONSORTIUM REPRESENTATIVES WHO HAD RECENTLY VISITED SAUDI ARABIA HAD MET WITH SOME SUCCESS). KUWAIT, HOWEVER, HAS NOT BEEN HAPPY WITH ITS DRAFT PARTICIPATION AGREEMENT, AND UNHAPPINESS HAD INCREASED BECAUSE OF WHAT IT REGARDS AS HIGHLY FAVORABLE POLITICAL ASPECTS OF IRANIAN DEAL. ACCORDING TO YAMANI, GOK WANTS CHANGES IN TERMS OF COMPENSATION, BUY-BACK PRICES AND OWNERSHIP PERCENTAGE TO BE AWARDED GOK. IN LATTER RESPECT YAMANI SEEMED TO THINK KUWAITIS DEFINITELY WANTED 51 PERCENT.

5. HE SUGGESTED THAT WHETHER KUWAITI DISSATISFACTION LED TO NEW ROUND OF "OVER-BIDDING" DEPENDED ON ARAMCO PARENT COMPANIES' WILLINGNESS TO MOVE FAST AND MAKE SOME COSMETIC CHANGES IN ARAMCO-SAG PARTICIPATION AGREEMENT. LONGER SUCH CHANGES IN "WRAPPING" OF AGREEMENT WERE DEFERRED, MORE LIKELY IT WAS THAT GOK MIGHT FEEL COMPELLED TO SOME UNILATERAL ACTION OR EVEN NATIONALIZATION. AT SECRET

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THAT POINT SAG-COMPANY RE-APPRAISALS OF PARTICIPATION WOULD HAVE TO INVOLVE MATTERS OF SUBSTANCES AND NOT JUST APPEARANCES.

6. YAMANI FELT BOTH KOC AND LIBYA WERE IN GOOD POSITIONS TO HAVE THEIR WAY--BY FIAT IF NECESSARY--WITH OPERATING COMPANIES. HE DID NOT BELIEVE EUROPEAN CONSUMERS WOULD TOLERATE LOSS OF LIBYAN OR KUWAITI PRODUCTION AND THAT THEY WOULD MOVE IN WITH THEIR OWN EXPERTS TO OPERATE OIL FACILITIES UNDER LOCAL FLAGS IF CONFRONTATION SHOULD ARISE. SAG, HE MADE CLEAR, DID NOT WANT BE DRAGGED INTO REFLEX SUPPORT OF EXTREME OR HASTY ACTION. YAMANI EXPLAINED THAT SITUATION OF LIBYA AND KUWAIT DIFFERED CONSIDERABLY FROM SAUDI ARABIA'S: FORMER TWO COUNTRIES PROBABLY HAD ONLY LIMITED UNDISCOVERED RESERVES AND HENCE LESS INTERESTED THAN SAG IN CONTINUING EXPLORATION. YAMANI, HOWEVER, FELT THERE MIGHT BE VERY LARGE QUANTITIES OF OIL IN SAUDI ARABIA YET TO BE DISCOVERED, AND SPOKE VERY POSITIVELY ABOUT ARAMCO'S BEING BEST ORGANIZATION TO PROSECUTE SEARCH FOR DEVELOPMENT OF SAUDI OIL. IT WAS CLEAR THAT HOWEVER FAR OTHER GOVTS MAY GO TOWARD NATIONALIZATION, YAMANI WISHES TO BE SURE THAT ARAMCO'S

HIGHLY EFFICIENT PETROLEUM EXPLORING AND DELIVERING ORGANIZATION IS PRESERVED.

7. WHEN I ASKED IF YAMANI THOUGHT OIL WOULD BE OBJECT OF MUCH DISCUSSION AT ALGIERS MEETING, YAMANI SAID IT WOULD NOT AND REFERRED ME TO LANGUAGE OF JOINT COMMUNIQUE ISSUED AT CLOSE OF RULER OF KUWAIT'S VISIT (WHICH ALLUDED TO RESPONSIBILITIES TWO COUNTRIES SHOULDER BECAUSE OF WORLD'S INCREASING NEED FOR ENERGY BUT WHICH REFERS IN NEXT SENTENCE TO NEED FOR FINDING "JUST, STABLE, POLITICAL ATMOSPHERE IN MIDDLE EAST.)

8. COMMENT: YAMANI'S REMARKS INDICATE QUESTION OF POSSIBLE LIMITATION ON OIL PRODUCTION OR LIMITATIONS ON RATE OF INCREASE IS TOPIC WHICH HAS MOVED NO CLOSER TO TOP OF SAG AGENDA THAN WHEN I LAST DISCUSSED TOPIC WITH HIM (REFTEL A). WOULD EXPECT SECRETARY'S LETTER TO FAHD HAD AUGMENTED MOOD OF CAUTION WITHIN SPC. YAMANI, LESS FORTHCOMING ON THIS OCCASION THAN ON OTHERS, VOICED  
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CUSTOMARY WARNINGS TO OIL COMPANIES, THOUGH HE HARDLY PROVIDED ENOUGH IDEA OF HIS AIMS TO ENABLE COMPANIES TO COME UP WITH CONCRETE SUGGESTIONS FOR IMPROVEMENT OF BASIC PARTICIPATION TERMS. WE WOULD SUSPECT COMPANIES WILL HAVE TO AWAIT OUTCOME OF NEXT OPEC MEETING BEFORE ANY FURTHER CLARIFICATION OF SAUDI VIEWS COMPANIES' OFFER FOR BUY-BACK PRICES. IF YAMANI DID NOT ADD GREATLY TO OUR STORE OF INFORMATION ABOUT CURRENT SITUATION, HIS REMARKS FORECAST RENEWED PERIOD OF BARGAINING AND UNCERTAINTY IN COMPANY-GOVT RELATIONS. ONLY COMFORTING ASPECT TO THIS OTHERWISE UNREASSURING OUTLOOK IS THAT FOR TIME BEING AT LEAST SAUDI ATTENTION MAY BE DISTRACTED (PARTICULARLY THAT OF YAMANI, MOST INFLUENTIAL MEMBER OF SPC) FROM HITHERTO INTENSE PREOCCUPATION WITH RELATIONSHIP OF RISING FINANCIAL RESERVES TO LEVELS OF PRODUCTION.  
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## Message Attributes

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**Capture Date:** 10 MAY 1999  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** n/a  
**Control Number:** n/a  
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**Draft Date:** 04 SEP 1973  
**Decaption Date:** 28 MAY 2004  
**Decaption Note:** 25 YEAR REVIEW  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** golinofr  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
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**Disposition Remarks:**  
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**Original Previous Handling Restrictions:** n/a  
**Page Count:** 4  
**Previous Channel Indicators:**  
**Previous Classification:** SECRET  
**Previous Handling Restrictions:** EXDIS  
**Reference:** A. JIDDA 3444; B. JIDDA 3710; C. JIDDA 3461  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** golinofr  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 03 JAN 2002  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <03-Jan-2002 by willialc>; APPROVED <04-Jan-2002 by golinofr>  
**Review Markings:**

Declassified/Released  
US Department of State  
EO Systematic Review  
30 JUN 2005

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** SAUDI GOVERNMENT OIL POLICY AND RELATED FINANCIAL ASPECTS  
**TAGS:** ENRG, SA  
**To:** STATE  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005